

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7604

INFO AMEMBASSY BONN

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DEPARTMENT PASS TREASURY AND FRB

E.O.L1652: N/A

TAGS: ETRD, UK

SUBJECT: CHANGES IN UK COST ESCALATION SCHEME AND OTHER
EXPORT AIDS

1. ON THURSDAY, DECEMBER 18, PETER SHORE, SECRETARY OF
STATE FOR TRADE, ANNOUNCED A REVISION OF THE UK'S COST
INFLATION COVER SCHEME AS WELL AS OTHER EXPORT FINANCING
AIDS. THE ANNOUNCEMENT CONTAINED 4 ELEMENTS WHICH WOULD,
IN THEORY, ASSIST BRITISH EXPORTERS TO BE COMPETITIVE WITH
EXPORTERS IN THOSE COUNTRIES WITH A LOWER RATE OF INFLA-
TION. THE ANNOUNCEMENT CONTAINED:

1. FINAL ELABORATION OF THE PRE-SHIPMENT FINANCING
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SCHEME.

2. INSURANCE COVER AGAINST HEAVY LOSSES DUE TO THE INSOLVENCY OF CONSORTIUM MEMBER OF A MAJOR EXPORT CONTRACT, E.G., SUB-CONTRACTORS.

3. DOUBLING OF THE AMOUNT OF BUSINESS WHICH EXPORTERS CAN DO UNDER ECGD'S COMPREHENSIVE GUARANTEE SCHEME.

4. AMENDMENTS TO THE COST INFLATION COVER SCHEME ANNOUNCED LAST FEBRUARY.

2. THE 4TH ITEM ABOVE WILL PROBABLY RECEIVE GREATER ATTENTION THAN ANY OF THE OTHER ELEMENTS OF SHORE'S ANNOUNCEMENT. THE CONFEDERATION OF BRITISH INDUSTRIES (CBI) HAS LONG BEEN URGING THE GOVERNMENT TO LIBERALIZE THE COST ESCALATION SCHEME. HOWEVER, IT DOES NOT APPEAR THAT THE DEGREE OF LIBERALIZATION WHICH THE CBI SOUGHT HAS BEEN ACCEPTED BY THE GOVERNMENT. IT IS OUR UNDERSTANDING THAT UNDER THE REVISED SCHEME EXPORTERS WILL BE ABLE TO CHOOSE THEIR INFLATION BANDS (WITHIN CERTAIN LIMITS) FOR ELIGIBLE COVERAGE UNDER THE SCHEME. REPORTS INDICATE THAT ECGD WILL REDUCE THE THRESHOLD FOR COVERAGE AND THE EXPORTERS WILL BE ELIGIBLE, IF THEY CHOOSE, FOR COST ESCALATION COVERS AT A LOWER RATE OF INFLATION THAN THE ORIGINAL SCHEME SET FORTH. IT ALSO MEANS THAT SHOULD THE EXPORTERS CHOOSE A HIGHER INFLATION THRESHOLD, THEN THE ECGD'S INSURANCE WOULD COVER A WIDER BAND OF INCREASES THAN UNDER THE ORIGINAL SCHEME.

3. IT IS REPORTED THAT THE MORE FLEXIBLE ARRANGEMENTS HAVE RECEIVED MUTED APPROVAL FROM THE CBI AND IN SOME WAYS THIS HAS COMPENSATED FOR THEIR COMPLAINTS OF RIGIDITY IN THE ORIGINAL SCHEME. HOWEVER, THE NEW MODIFICATIONS DO NOT PROVIDE FOR A OPEN-ENDED SYSTEM AS THE CBI HAD ORIGINALLY LOBBIED FOR.

4. THE NEW MODIFICATIONS DO NOT REQUIRE PARLIAMENTARY APPROVAL IN THAT THEY REPRESENT ONLY MODIFICATIONS OF AN EXISTING PROGRAM. FURTHER DETAILS WILL BE REPORTED WHEN AVAILABLE.

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